

I analyze the effect of Wal-Mart's entry into the grocery market using a unique store-level price panel data set. I find that, for a market basket consisting of 24 everyday grocery items across several categories, the difference between Wal-Mart's and competitors' prices is 9.5%, and competitors' response to Wal-Mart's entry is a price reduction of 1-1.5%. Consistent with these results, I also find that after Wal-Mart's entry, changes in Wal-Mart's price are met by, at most, a 10% match by competitors.